



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUN 15 2012

DEPUTY ADMINISTRATOR

Philip L. Rinaldi
Chief Executive Officer
Philadelphia Energy Solutions
c/o The Carlyle Group
520 Madison Avenue
New York, New York 10022

Dear Mr. Rinaldi:

This letter follows up on and summarizes discussions regarding the plans by the Sunoco/Carlyle joint venture for the future of Sunoco's Philadelphia-area refining operations. These discussions have covered a wide range of issues and have focused in particular on the Philadelphia refinery's Clean Air Act emission limits governed by the 2005 consent decree. Overall emissions covered in that consent decree have declined with the idling and planned permanent shut-down of Sunoco's nearby Marcus Hook refinery.

These discussions come at a critical time when unique circumstances are affecting refining capacity in this geographic area. Maintaining resilience and improving the flexibility of the capacity to accept a variety of feed-stocks is important for supply and price stability.

Representatives of the U.S. Environmental Protection Agency, the city of Philadelphia and the commonwealth of Pennsylvania have been actively involved in detailed technical discussions with representatives of the Sunoco/Carlyle joint venture on this topic. Based on these discussions, we believe there is a workable construct that would provide environmentally protective near-term and long-term operational flexibility for the Philadelphia refinery and that recognizes and preserves the benefits to the local airshed under the consent decree, as follows:

- A new, interim emission limit for sulfur dioxide applicable to the Philadelphia refinery's FCCU 868. This interim limit of 125 ppmvd based on a 365-day rolling average would remain in effect through December 31, 2015. On this date, the Philadelphia refinery would then comply with the previously agreed-to final emission limits for FCCU 868 as currently specified in the amended consent decree.
- The emission reductions that result from meeting first the interim and then the final emission limits in 2015 would be available to use for netting purposes, and the amounts for each would be determined according to applicable new-source-review permitting requirements. Anytime during the phase in to the final limits in 2015, additional reductions that are achieved in interim years would be available for netting.
- All other consent decree requirements would remain in place.

- To reflect the above, EPA will work with DOJ, Pennsylvania and Philadelphia to promptly file an appropriate amendment to the 2005 Consent Decree, in the United States District Court for the Eastern District of Pennsylvania. We understand that the transaction cannot be completed until this is filed.

We believe there are multiple benefits to the joint venture under this construct, including that it provides both a near-term cost savings from the use of catalyst additives during the interim period, as well as time for the joint venture to work through any technical issues associated with the FCCU 868's operations that it may be experiencing. In addition, the netting credits from the reductions would be spread out over time, providing additional flexibility for the joint venture's plans for additional investment in the Philadelphia refinery complex. The step-down schedule also recognizes and is based on the emission benefits that would have been realized from the Marcus Hook refinery under the consent decree. With these interim limits in place, the overall sulfur dioxide emissions will be down more than 75 percent from 2010/2011 levels and by 2015 the emissions will be at the levels required by the consent decree.

An additional benefit to this construct is that it is independent from any determination that the two refineries would be treated as a "single source" for permitting purposes. In the event that a "single source" determination is made by the city and the commonwealth, the EPA would be supportive and open to discussing this, in particular the amount of emission credits that would be available under such a determination.

We also understand that the Joint Venture is seeking clarity with respect to its liability for activities that occurred prior to the closing of this transaction. It is the Joint Venture's position that Sunoco will retain sole responsibility for such Legacy Environmental Liabilities prior to closing. The Joint Venture is interested in pursuing a Prospective Purchaser Agreement to clarify this and EPA is committed to working with the Joint Venture to expeditiously clarify this question; however, we will need further information to complete the task quickly.

We are appreciative of the effort and discussions with the joint venture, the city and the commonwealth. In addition, I want to specifically thank Mayor Nutter and Secretary Krancer for their leadership.

Sincerely,



Bob Perciasepe

cc: The Honorable Michael A. Nutter
Mayor, City of Philadelphia

The Honorable Cynthia Giles
EPA Assistant Administrator
Office of Enforcement and Compliance Assurance

Mr. Shawn Garvin
EPA Region 3 Administrator

Ms. Janet Woodka
EPA Director of Regional Operations

Mr. Michael Krancer
Secretary, Pennsylvania DEP